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2-28-17
04:59 PM

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

Order Instituting Rulemaking to Implement Portions of AB117 concerning Community Choice Aggregation.	)))	R.03-10-003 (Filed October 2, 2003)

SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) NOTICE OF EX PARTE COMMUNICATION

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Dated: **February 28, 2017**

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Pursuant to Rule 8.4 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission), Southern California Edison Company (SCE) hereby gives notice of the following notice of *ex parte* communication. The communication occurred on Thursday, February 23, 2017, at 3:30 p.m. at the offices of the Commission. The communication was oral and lasted approximately 40 minutes. The attached written materials were distributed during the meeting.

SCE, Pacific Gas and Electric Company (PG&E), and San Diego Gas & Electric Company (SDG&E) (collectively, Joint Utilities) initiated the communication with Nick Chaset, Advisor to Commissioner Michael Picker. Attending the meeting for SCE were Colin Cushnie, Vice President, Energy Procurement and Management, and Laura Genao, Managing Director, Regulatory Affairs. Attending the meeting for PG&E were Fong Wan, Senior Vice President, Energy Policy and Procurement, and Meredith Allen, Senior Director, Regulatory Affairs. Attending the meeting for SDG&E were Kendall Helm, Director of Origination and Brian Prusnek, Director of Regulatory Affairs.

The Joint Utilities described the increasing number of communities that are considering Community Choice Aggregation (CCA). The Joint Utilities explained that the timeframe from

CCA exploration to implementation is shrinking and communities like the City of San Diego and Los Angeles County represent a significant share of their respective investor-owned utilities' (IOUs) total load. In aggregate, potential load departure from the Joint Utilities' bundled service procurement could be up to approximately 80 percent of total retail load. State law requires that remaining IOU bundled service retail customers do not experience any cost increases as a result of departing load (including to CCAs). This is known as the "indifference requirement," and the Commission has established the Power Charge Indifference Adjustment (PCIA) and Cost Allocation Mechanism (CAM) to ensure that departing load customers pay for their pro rata portions of the Joint Utilities' legacy and reliability-related procurement portfolios, respectively. The Joint Utilities explained, however, that the PCIA is flawed and does not prevent cost shifting to remaining bundled service customers. The current administratively-set benchmarks for renewable energy and capacity "value" used to calculate PCIA rates significantly overstate the estimated market value of the IOUs' generation portfolios. Current market revenues are not sufficient to cover the costs of the generation resources in the IOUs' portfolios. Accordingly, because current PCIA revenues are insufficient to cover departing load's pro rata share of above-market costs of the IOUs' generation portfolios procured on behalf of all of their customers, the IOUs' remaining bundled service customers pay for the shortfall. To remedy this situation, the Joint Utilities propose moving to a portfolio allocation method that allocates the pro rata portion of the actual net costs and benefits of their respective generation portfolios to both bundled service and departing load customers. This has the additional benefit of facilitating a retrospective true-up to reflect actual costs and benefits, and would eliminate the reliance on administratively-set benchmarks. It would also be more effective than the PCIA at meeting the statutory indifference requirement, which is achieved only when all customers pay their pro rata share of above-market legacy utility procurement costs. The Joint Utilities discussed this Portfolio Allocation Method, along with other potential options, during the last two PCIA Working Group meetings, and are considering proposing it to the Commission in a joint application.

Respectfully submitted,

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February 28, 2017

ATTACHMENT

Update on Customer Choice in California and Portfolio Allocation Proposal

Update on Customer Choice in California and Portfolio Allocation Proposal

February 2017

Joint presentation of PG&E, SCE, SDG&E

Executive Summary

Customer Choice Is Increasing And Accelerating	Customers are expressing more interest in departing from utility bundled service, especially through Community Choice Aggregation (CCA) formation.
All LSEs Should Contribute Equitably To Achieve State Energy Policy Goals	The utilities support the State's clean policy goals. However, implementing policy objectives through utility-only procurement will not be practical as load departures increase.
Remaining Bundled Customers' Indifference From Load Departures Is Required By State Law	Remaining utility bundled service customers should not experience cost increases associated with departing load, as required by state law (Pub. Util. Code Sections 366.2 and 366.3).
Reforms Are Needed To Protect Remaining Bundled Customers	The Power Charge Indifference Adjustment (PCIA) mechanism is fundamentally flawed and currently results in bundled customer cost increases.

Significant Numbers Of Communities Are Expressing Interest In CCA Across California

ACTIVE

PG&E Service Territory
- Marin County
- Napa County
- San Francisco County
- San Mateo County
- Sonoma County
- Cities of Benicia, El Cerrito, Lafayette, Richmond, San Pablo and Walnut Creek

SCE Service Territory
- City of Lancaster

EXPLORING / IN PROGRESS

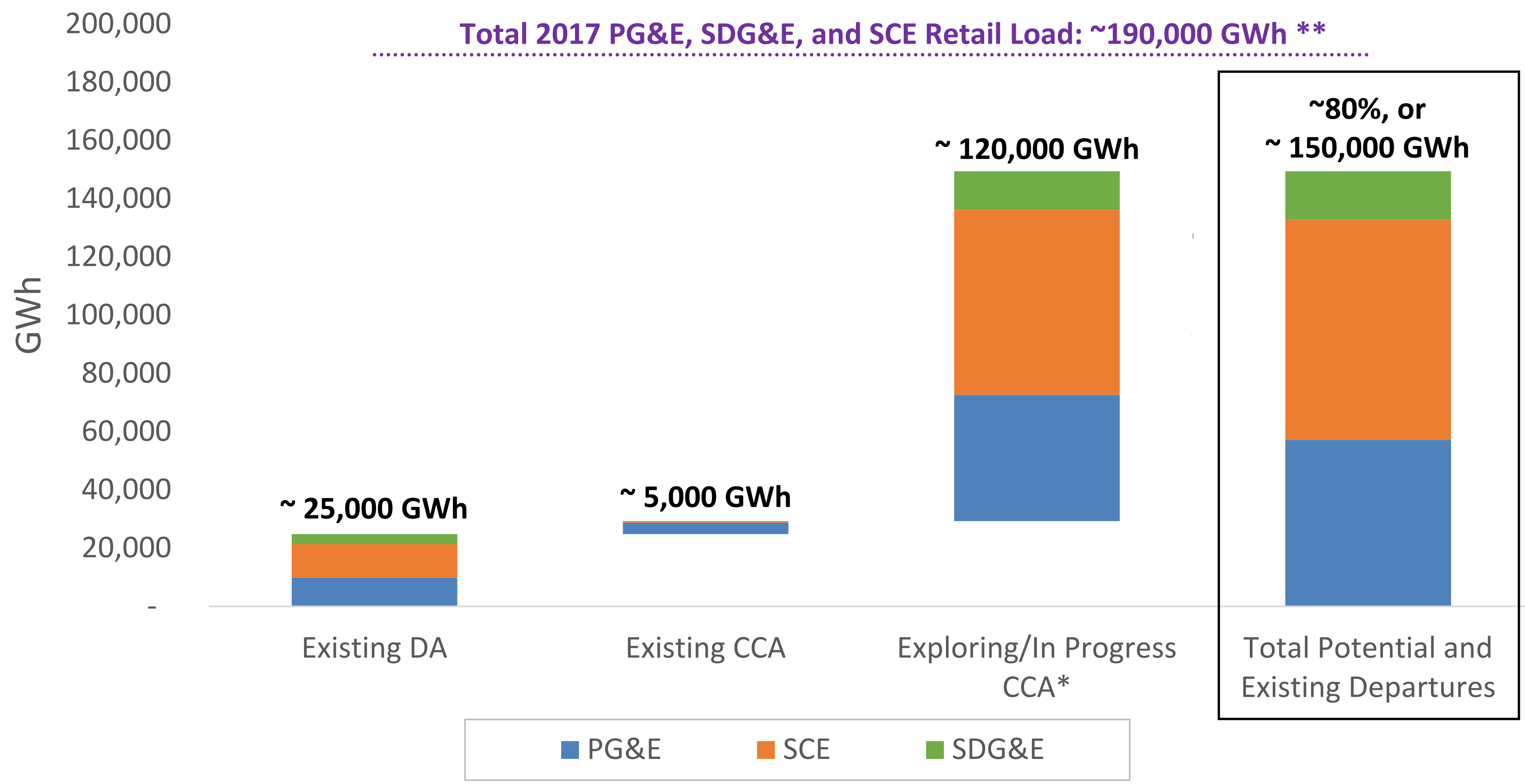
PG&E Service Territory
- Alameda County
- Contra Costa County
- Humboldt County
- Lake County
- Mendocino County
- Monterey County
- Placer County
- San Luis Obispo County
- Placer County
- Santa Clara County
- Santa Cruz County
- Solano County
- Yolo County
- San Benito County
- Santa Barbara County

SCE Service Territory
- Los Angeles County
- Riverside County
- San Bernardino County
- Santa Barbara County
- Ventura County

SDG&E Service Territory
- City of San Diego
- San Diego County

Note: Typical timeframe to move from exploration to implementation is 6 to 24 months

Potential Customer And Load Departure Could Be Up To ~80%



* Exploring / In Progress CCA load departures reflect local jurisdictions that have issued a CCA municipal ordinance or have stated interest in CCA formation. It also reflects full departure with no opt outs.

** Retail load excludes current Energy Efficiency and Distributed Generation. Additional future departing load from Net Energy Metering is not reflected here.

Source of Total IOU Retail Load: CEC IEPR Form 1.1c 2017 Retail Load based on actual 2014 data

Protections For Bundled Service Customers From Cost Increases Due To Load Departures

LEGISLATIVE DIRECTIVE

Assembly Bill 117 (2002)

Enabled CCA formation and states that the "***implementation of a CCA program shall not result in a shifting of costs*** *between the customers of the CCA and the bundled service customers.*"

Decision 04-12-048 (2004)

Acknowledged PU Code 366.2 requires the Commission to authorize CCA formation only if it imposes ***cost-recovery mechanism consistent with the law***

Senate Bill 350 (2015)

Stated that the CPUC shall "*ensure that* ***bundled retail customers of an electrical corporation do not experience any cost increases*** *as a result of retail customers of an electrical corporation electing to receive service from other providers*"

REGULATORY IMPLEMENTATION

✗ **Power Charge Indifference Adjustment (PCIA)**	Mechanism to recover above-market costs of generation resources procured by the utility prior to the departure of customers "Market value" of generation resources is determined based on administratively-set benchmarks
✓ **Cost Allocation Mechanism (CAM)**	Mechanism to recover costs from all benefiting customers Allocates resource attributes and net cost to LSEs

PCIA Is Not Effective In Preventing Cost Shifting Between Departed Load And Remaining Bundled Service Customers

PCIA = Cost of the **utility portfolio commitments** at the time the customer left − Forecasted "**market value**" of the portfolio using administratively-set benchmarks established in 2011

CURRENT STATE

Current administratively-set benchmarks significantly overstate market value

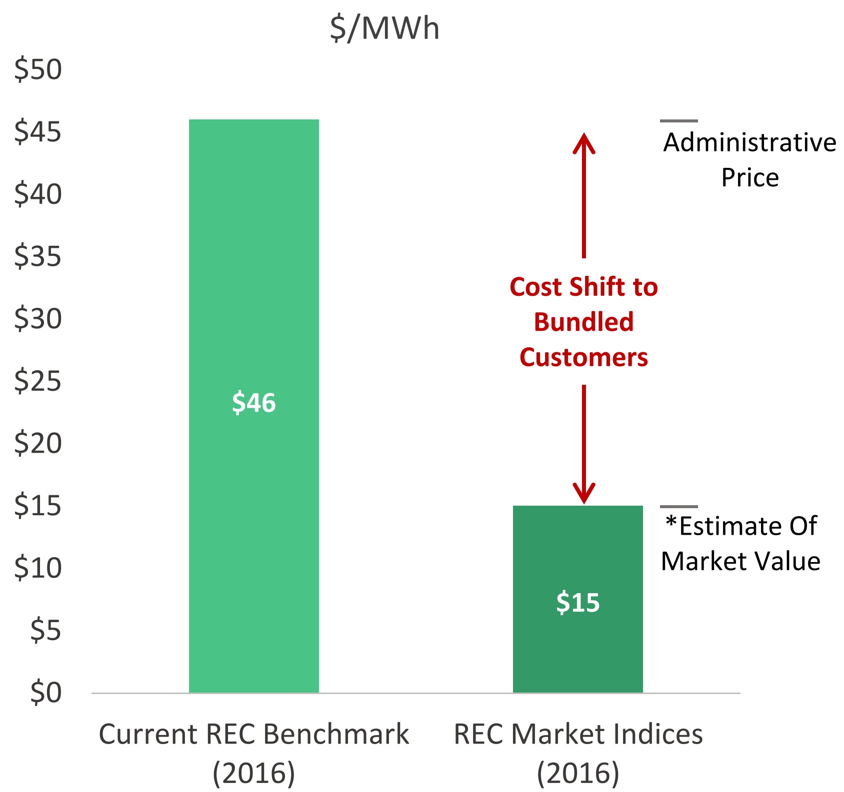
REC and capacity benchmarks are not aligned with current market prices:

- REC benchmark is based on out-of-date confidential IOU contract information
- Capacity benchmark is based on a CEC study of gas peaker operating costs and does not represent current Resource Adequacy capacity market value
- Process for updating benchmarks is contentious. The benchmarks were last updated in 2011, more than 5 years ago

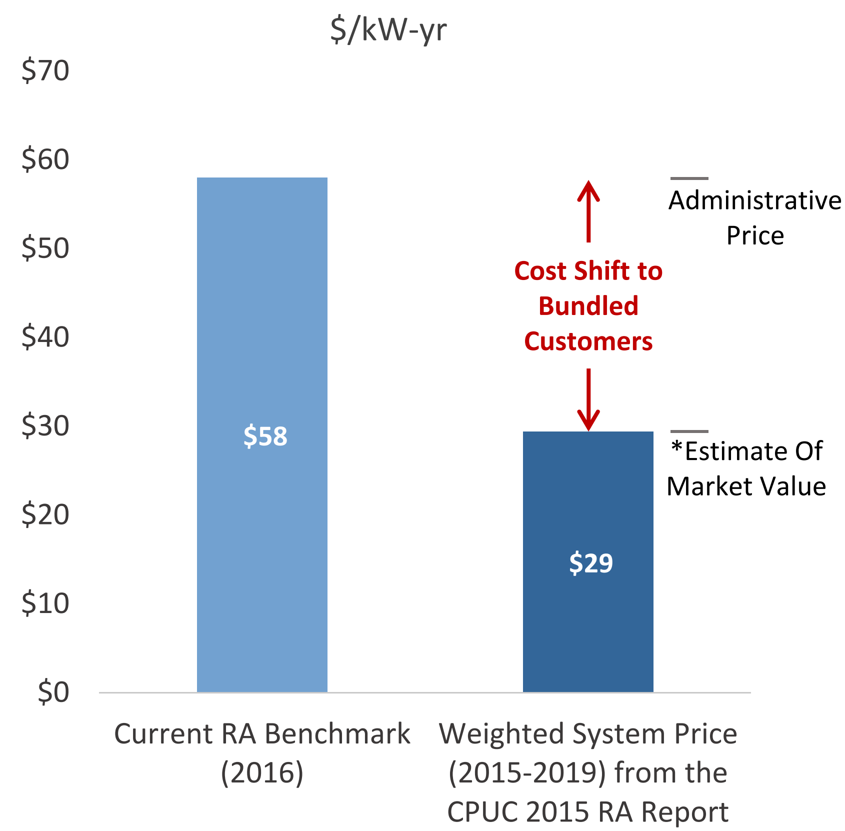
Fixing benchmarks alone will not solve the underlying flaws of PCIA methodology

Current PCIA Benchmarks Are Too High

Renewable Energy Credit (REC) Benchmark



Capacity (RA) Benchmark



**Estimates shown are based on publicly available information only. Market benchmarks at these prices may still result in cost shifts to bundled customers since they represent transactions different from those the utility may be able to obtain when selling excess power and capacity.*

The PCIA Methodology Artificially Encourages Departure From Bundled Service And Is Unsustainable

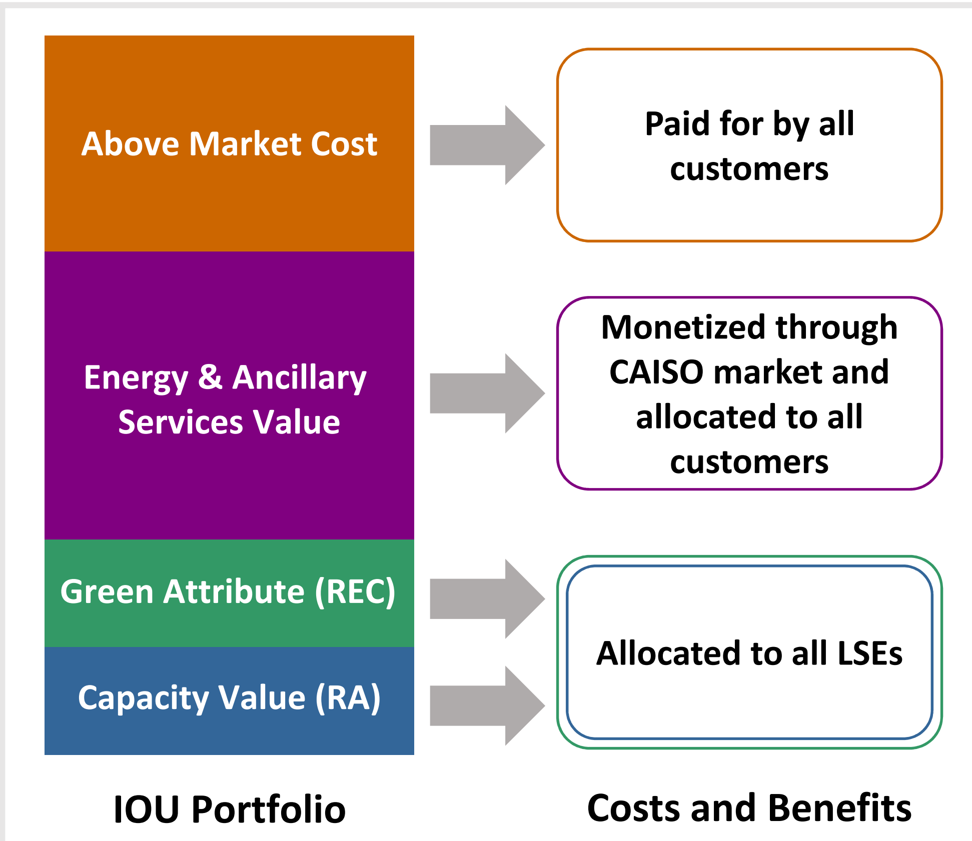
PCIA does not fully recover above-market costs from departing customers

Remaining bundled service customer rates go up to make up shortfall

CCA / DA model becomes increasingly financially attractive

As departing customers avoid their share of existing bundled service costs, the regulatory compact is undermined

Moving to a Portfolio Allocation Method Is Consistent with State Law and Equitable to All Customers



BENEFITS

- Eliminates administratively set benchmarks
- Clear, transparent, and effective
  - ☑ *No longer based on confidential data and inaccurate market estimates*
- Facilitates a true-up to reflect actual costs and value
- Meets statutory indifference requirement that all customers pay their share of costs

A Portfolio Allocation Method replaces inaccurate and contentious administrative prices with true market valuation and an allocation of attributes and is increasingly important with higher levels of load departure